

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO DIVERSIFIED)	
OPERATIONS OF LOCAL EXCHANGE)	ADMINISTRATIVE
TELEPHONE COMPANIES)	CASE NO. 340

O R D E R

The Commission, on its own motion, initiates this investigation into the diversification efforts of Kentucky's local exchange companies ("LECs"). The purpose of this proceeding is to ensure that the subscribers of regulated telephone services are not subsidizing LEC diversified operations, specifically cellular telephone service and other ventures not related to the provision of traditional telephone service.

In Administrative Case No. 321,¹ the Commission adopted rules to separate the costs, revenues, and investment associated with non-regulated LEC ventures from those of regulated ventures. However, because cellular telephone service is a competitive but regulated activity, concerns that traditional telephone service might subsidize cellular telephone service are not adequately addressed by those rules. The recent entry of many LECs into

¹ Administrative Case No. 321, Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities.

cellular operations requires that sufficient controls be developed to prevent such cross-subsidies from occurring.

As a part of this investigation, the Commission will require that all LECs be made a party to this case and provide answers to the following questions:

1. Provide a detailed narrative discussing the extent of the LEC's involvement to date into cellular operations.

2. Describe how the LEC acquired its interest in the cellular venture including all journal entries which reflect acquisition of such interests. Also provide any purchase contracts and the percentage of partnership or shares owned. Identify all investments to date and expected investments over the next two years.

3. Explain, in detail, how the LEC will separate expenses, revenues, and costs associated with the cellular venture from those associated with non-regulated ventures and traditional telephone services. If the cost allocation manuals are a part of any of this answer, specify what parts of these manuals are applicable. Explain the separation of all common costs including but not limited to buildings, common employees, and other common equipment such as vehicles, etc.

4. Provide a description, including account titles, of how the cellular investment, revenues, and expenses will be booked.

5. How will assets, such as cash and other current assets, and liabilities be allocated between cellular and traditional telephone services?

6. Provide the name, business address, and extent of the LEC's involvement in any business other than cellular operations.

7. Does the LEC belong to any industry organizations providing information about cellular operations? If so, identify.

8. Have competitive ventures such as cellular operations been established as departments or divisions of the LEC or established as separate subsidiaries? Provide the reasons why the organization was structured in this manner.

9. Has public disclosure to its customers or members been made of LEC cellular activities and investments?

10. Will cellular service be offered to anyone other than customers, or members, of the LEC?

11. Are there express provisions in the bylaws which provide that services can be offered to customers outside the LEC prescribed territory, or non-members?

12. Provide copies of any provisions of the LEC's bylaws and/or articles of incorporation which specifically permit or prohibit involvement in diversified activities or investment in affiliated or non-affiliated business ventures. Identify any conditions on such activity and the steps taken by the LEC to comply with these provisions.

13. Provide copies of minutes of board of directors' meetings where cellular activities have been discussed.

14. Provide any information you deem appropriate to reflect the LEC's position on the following issues:

a. Commission approval, or prior review, of LEC investments in ventures other than traditional telephone service, including cellular service.

b. The liability of LEC ratepayers for costs associated with ventures other than traditional telephone service.

c. The receipt by ratepayers of the benefit of income produced by ventures other than traditional telephone service.

d. Commission access to financial and other information of non-utility subsidiaries and affiliated companies.

e. Commission approval or review of contracts with affiliated companies.

f. LEC provision of periodic reports of diversification activities to the Commission.

15. Explain in detail how the cellular on-going operations will be financed, including any operating deficits.

IT IS THEREFORE ORDERED that:

1. This case be and it hereby is established to investigate the diversification efforts of LECs.

2. All LECs shall be made a party to this case and shall file a response to the questions contained herein, within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 25th day of October, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director